

COMPANY RESULTS

Public Bank (PBK MK)

2Q25: Growth Holds Firm Amid Higher Costs

Public Bank's 2Q25 earnings came in marginally below expectations due to one-off legal costs. Nonetheless, PPOP rose a commendable 7% yoy in 1H25. We maintain our BUY rating and target price of RM5.25 (1.66x 2026F P/B, 12.6% ROE). With its valuation near pandemic lows (-1.5SD below mean) and the sector's strongest provision buffers, the bank remains well-positioned to weather macro headwinds.

RESULTS

- **Marginally below.** Public Bank recorded 2Q25 net profit of RM1.76b (-1.2% yoy, flat qoq) bringing 1H25 earnings to RM3.51b (+2% yoy). 1H25 earnings came in marginally below, at 47% of our full-year estimate, dragged by one-off legal expenses. 1H25 earnings growth was supported by a steady 5% loan growth, stable NIM, and strong non-interest income (+17% yoy). However, upward normalisation in credit cost and negative operating JAWS (partly impacted by the one-off legal expense) capped overall growth.
- **2Q25 earnings.** 2Q25 earnings fell 1% yoy as steady NOII (+4%) and NII (+5%) were offset by normalised credit cost (4bp vs writeback in 2Q24) and negative JAWS from one-off legal expenses
- **NIM outlook.** Net interest income rose 4.1% yoy (+1.4% qoq) on steady loan growth (+5.1% annualised), though NIM edged down to 2.19% (1Q25: 2.20%) due to ongoing funding cost pressures. We maintain our forecast for ~5bp NIM compression in 2025 vs management's mid-to-high single-digit compression. Management noted wholesale funding remains a key pressure point, and has plans to diversify into cheaper, more stable sources such as bonds.
- **Strong non-interest income momentum.** Non-interest income grew 17.5% yoy (+1.6% qoq), supported by higher trading income (+84.5%), forex gains (+29.9%) and general insurance contributions from the LPI acquisition (RM146m). Fee income was broadly stable (-0.7% yoy), with weaker stockbroking (-14%) offset by stronger commissions (+8%). NOII ratio rose to 22.1% from 20.1% a year ago.
- **Commendable PPOP growth.** 1H25 pre-provision operating profit (PPOP) expanded 6.8% yoy but was flat qoq (+0.5%) as higher costs offset income growth. The positive yoy performance reflects PBB's broad-based revenue momentum coupled with the maiden contribution from its LPI acquisition.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net interest income	9,055	9,451	9,770	10,342	10,932
Non-interest income	2,476	2,823	3,032	3,181	3,337
Net profit (rep./act.)	6,649	7,118	7,274	7,709	8,117
Net profit (adj.)	7,138	7,118	7,274	7,709	8,117
EPS (sen)	34.3	36.7	37.5	39.7	41.8
PE (x)	12.0	12.1	11.8	11.1	10.6
P/B (x)	1.6	1.5	1.4	1.4	1.4
Dividend yield (%)	4.3	4.3	5.1	5.4	5.7
Net int margin (%)	2.19	2.20	2.15	2.15	2.14
Cost/income (%)	33.7	34.5	35.1	35.5	36.0
Loan loss cover (%)	181.8	166.2	184.1	205.7	235.9
Consensus net profit	-	-	7,340	7,674	8,108
UOBKH/Consensus (x)	-	-	0.99	1.00	1.00

Source: Public Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.42
Target Price	RM5.25
Upside	+18.7%

COMPANY DESCRIPTION

Public Bank is the third-largest domestic banking group in Malaysia by assets with about 14.8% of system assets and 16.2% loan market share.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	PBK MK
Shares issued (m):	19,410.7
Market cap (RMm):	85,795.3
Market cap (US\$m):	20,433.3
3-mth avg daily t'over (US\$m):	18.0

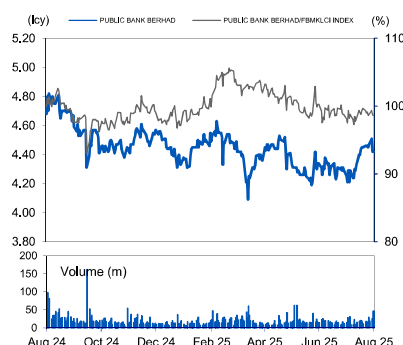
Price Performance (%)

52-week high/low			RM4.84/RM4.03	
1mth	3mth	6mth	1yr	YTD
3.0	0.2	(2.9)	(2.0)	(3.1)

Major Shareholders

	%
Consolidated Teh Holdings Sdn Bhd	21.6
EPF	16.8
FY25 NAV/Share (RM)	3.06
FY25 CAR Tier-1 (%)	15.1

PRICE CHART



Source: Bloomberg

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- **Domestic loans growth remains firm.** The group delivered solid annualised domestic loan growth of 6% (above the sector's 4%), though stronger RM weighed on overseas operations, softening the overall group's loan growth to 5.1% yoy. Growth was led by residential mortgages (+5.3%), commercial property (+6.0%) and hire purchase (+12.0%). The overall growth remains within management's 5-6% target, which management has retained.
- **Asset quality remains solid.** GIL ratio held stable at 0.54% (1Q25: 0.53%), with domestic GIL at just 0.4%. Loan-loss coverage was robust at 154% (vs the industry's 91%). Export-related loans form <3% of the book, limiting direct tariff risk.
- **Provisions remain benign.** Net credit cost declined to 3bp from 4bp in 1Q25 bringing 1H25 net credit cost to 3.5bp, which is broadly in line with our full-year forecast of 4bp. Management overlays stood at RM1.0b. Given tariff uncertainties, we have assumed marginal writebacks in management overlays (1H25: RM217m written back).
- **ROE targets retained.** Despite lowering NIM guidance to a mid-high single-digit compression (from mid-single digit), management is maintaining its 2025 ROE target of 13%, expecting stronger non-interest income to offset the impact.
- **2025 key guidance:** a) ROE: about 13%; b) loan growth: 5-6%; c) deposit growth: 5-6%; d) net credit cost: single digit; e) NIM: mid-to-high single-digit compression; and f) dividend payout ratio of 60%.

EARNINGS REVISION/RISK

- Factoring in the lumpy legal expense, we trim our 2025 earnings forecast by 2% while maintaining 2026/27 forecasts largely unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM5.25 (1.66 2026F P/B, ROE: 12.6%)** We remain positive on Public Bank as its valuation has de-rated to near pandemic lows (-1.5SD below its historical mean P/B). Additionally, its robust provision buffers present potential for significant writebacks, which are not yet reflected in our or consensus estimates.

2Q25 RESULTS

Profit & Loss (RMm)	2Q25	2Q24	yoy % chg	1H25	yoy % chg	Remarks
Net Interest Income	2,410.7	2,318.0	4.0	4,791.0	3.4	
Islamic Banking	462.9	417.0	11.0	911.0	9.7	
Fees & Commissions	525.6	541.3	(2.9)	1,068.6	(0.7)	
Net Investment Income	73.4	43.1	70.2	107.4	84.5	
Other Operating Income	179.1	90.4	98.2	374.2	96.5	
Total Income	3,651.6	3,409.7	7.1	7,252.2	6.8	
Operating Expenses	(1,299.5)	(1,199.4)	8.3	(2,559.0)	6.7	
PPOP	2,352.1	2,210.3	6.4	4,693.2	6.8	
Provision on loans and investments	(33.6)	(4.4)	671.0	(77.0)	11.3	
PBT	2,333.6	2,280.0	2.4	4,646.2	5.3	
Net Profit	1,760.2	1,781.7	(1.2)	3,505.5	2.1	
EPS (sen)	9.1	9.2	(1.2)	18.1	2.1	
DPS (sen)	10.5	10.0	5.0	10.5	5.0	
BVPS (RM)	2,410.7	2.90	4.5	3.03	4.5	
Financial Ratios (%)	2Q25	2Q24	yoy chg (ppt)	1Q25	qoq chg (ppt)	Remarks
NIM	2.19	2.19	0.00	2.19	0.00	
Loan Growth, yoy	5.8	6.3	(0.4)	6.1	(0.3)	
Deposit Growth, yoy	3.8	4.5	(0.7)	4.0	(0.2)	
Loan/Deposit Ratio	97.8	95.8	2.0	97.6	0.2	
Cost/Income Ratio	35.6	35.2	0.4	35.0	0.6	
ROE	12.2	12.9	(0.7)	12.2	(0.0)	
NPL Ratio	0.5	0.6	(0.1)	0.5	0.0	
Credit Costs (bp)	3.1	(0.1)	3.3	3.6	(0.5)	
CET-1 CAR	14.0	14.5	(0.5)	14.0	(0.0)	

Source: Public Bank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2025F	2026F	2027F
Loan Growth	5.0	5.5	6.2
Credit Cost (bp)	4.0	2.0	1.0
ROE	12.3	12.6	12.8

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental - Green loan commitment. Launched a campaign in 2020 offering preferential rates for selected energy efficient vehicles (EEV) under its ALTAB Hire Purchase-i, to promote the usage of EEVs. - Paperless initiative. Moving towards paperless operations with its enhanced Go Green initiatives in its daily operations, such as migrating reports to online verification module, issuing electronic statements and notices as well as introducing electronic signatures (eSignature) in new deposit account openings. • Social - Board and upper management gender diversity. Maintained 33% female directors on the Board and 48% for top and senior management. • Governance - Non-independent board of directors composition. Composition of Independent Non-Executive Directors – 55%.
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Source: Public Bank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Interest income	18,871	17,103	18,091	19,149
Interest expense	(9,420)	(7,332)	(7,749)	(8,216)
Net interest income	9,451	9,770	10,342	10,932
Fees & commissions	2,187	2,253	2,365	2,484
Other income	636	779	816	854
Non-interest income	2,823	3,032	3,181	3,337
Income from Islamic banking	1,707	1,792	1,882	1,976
Total income	13,981	14,595	15,405	16,246
Staff costs	(3,551)	(3,800)	(4,104)	(4,432)
Other operating expense	(1,277)	(1,324)	(1,373)	(1,423)
Pre-provision profit	9,153	9,471	9,929	10,391
Loan loss provision	(1)	(180)	(95)	(50)
Other provisions	(492)	0	0	0
Associated companies	241	150	165	182
Pre-tax profit	8,902	9,442	9,999	10,522
Tax	(1,913)	(2,077)	(2,200)	(2,315)
Minorities	128	(90)	(90)	(90)
Net profit	7,118	7,274	7,709	8,117
Net profit (adj.)	7,118	7,274	7,709	8,117

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Cash with central bank	7,650	8,975	9,514	10,085
Govt treasury bills & securities	24,039	24,520	25,010	25,511
Interbank loans	0	0	0	0
Customer loans	420,472	444,486	470,508	498,092
Investment securities	62,883	67,819	73,105	78,768
Derivative receivables	568	661	754	848
Associates & JVs	384	431	475	521
Fixed assets (incl. prop.)	1,273	1,473	1,673	1,873
Other assets	25,593	25,957	33,093	46,650
Total assets	542,863	574,322	614,133	662,347
Interbank deposits	13,458	14,371	15,346	16,387
Customer deposits	433,264	457,094	485,434	515,531
Derivative payables	263	269	274	280
Debt equivalents	353	318	286	257
Other liabilities	35,878	40,587	48,962	63,813
Total liabilities	483,216	512,638	550,302	596,268
Shareholders' funds	57,335	59,283	61,340	63,497
Minority interest - accumulated	2,311	2,401	2,491	2,581
Total equity & liabilities	542,863	574,322	614,133	662,347

OPERATING RATIOS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Capital Adequacy				
Tier-1 CAR	14.3	15.1	15.3	14.7
Total CAR	14.3	17.2	17.3	16.6
Total assets/equity (x)	9.5	9.7	10.0	10.4
Tangible assets/tangible common equity (x)	9.9	10.2	10.5	11.0
Asset Quality				
NPL ratio	0.5	0.5	0.5	0.5
Loan loss coverage	166.2	184.1	205.7	235.9
Loan loss reserve/gross loans	0.9	1.0	1.1	1.2
Increase in NPLs	(4.7)	4.7	8.3	3.3
Credit cost (bp)	11.6	4.0	2.0	1.0
Liquidity				
Loan/deposit ratio	97.0	97.2	96.9	96.6
Liquid assets/short-term liabilities	7.1	7.1	6.9	6.7
Liquid assets/total assets	5.8	5.8	5.6	5.4

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Growth				
Net interest income, yoy chg	4.4	3.4	5.9	5.7
Fees & commissions, yoy chg	12.2	3.0	5.0	5.0
Pre-provision profit, yoy chg	5.5	3.5	4.8	4.7
Net profit, yoy chg	7.0	2.2	6.0	5.3
Net profit (adj.), yoy chg	(0.3)	2.2	6.0	5.3
Customer loans, yoy chg	6.5	5.7	5.9	5.9
Customer deposits, yoy chg	4.9	5.5	6.2	6.2
Profitability				
Net interest margin	2.2	2.1	2.1	2.1
Cost/income ratio	34.5	35.1	35.5	36.0
Adjusted ROA	1.3	1.3	1.3	1.3
Reported ROE	12.4	12.3	12.6	12.8
Adjusted ROE	12.4	12.3	12.6	12.8
Valuation				
P/BV (x)	1.5	1.4	1.4	1.4
P/NTA (x)	1.6	1.5	1.5	1.4
Adjusted P/E (x)	12.1	11.8	11.1	10.6
Dividend Yield	4.3	5.1	5.4	5.7
Payout ratio	51.8	60.0	60.0	60.0

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